

Japan Credit Rating Agency, Ltd. (JCR) announces the following credit rating.

## The Seto Shinkin Bank (security code: -)

<Affirmation>

Long-term Issuer Rating: A-  
Outlook: Stable

### Rationale

- (1) The Seto Shinkin Bank (the "Bank") is a shinkin bank headquartered in Seto City, Aichi Prefecture, with a fund volume of a little more than 2 trillion yen. It maintains large market shares for deposits and loans in Seto City, and has a firm branch network covering Nagoya City and the surrounding area as well. The rating on the Bank is supported by the strength of the business base, the favorable capital adequacy, and the quality of loan assets, among others. The fundamental earning capacity was at a low level relative to the rating, but has been improving in recent years.
- (2) Its core net business income (excluding gains on cancellation of investment trusts, the same hereafter) has been on an uptrend since the fiscal year ended March 2018 (FY2017), mainly thanks to reductions in interest on deposits and expenses. Execution of a large amount of COVID-19-related loans and diversification of investment in foreign assets in securities management are also contributing to earnings. However, with ROA (based on core net business income) for FY2021 at around 0.2%, the enhancement of the earning capacity remains an issue to address. In addition, as repayment of COVID-19-related loans is expected to proceed going forward, it is necessary to follow up on the medium-term trends of loan interest income, in JCR's view.
- (3) The quality of loan assets is favorable. In FY2021, loans with risks increased, but the non-performing loans ratio disclosed under the Financial Reconstruction Act is at a restrained level in the 2% range. The ratio of categorized loans to the total loans is low, due in part to the large guarantees provided by collaterals, etc. No problem is observed in the concentration of credit to specific large borrowers or industries. Against the background of such solid credit management, credit costs could be fully absorbed by core net business income.
- (4) Although the Bank has taken risks somewhat aggressively in securities management, the amount of risks is not excessive against the management vitality. The ratio of securities to deposits is high compared with the average of shinkin banks, and the Bank has been increasing its exposure to overseas interest rates and credits. Valuation losses on other securities have been ballooning due to rising interest rates both at home and abroad, among others. That said, the impact on the financial base is at a level that can be fully absorbed by capital. In addition, the Bank is currently adopting a stance to constrain risks amid uncertainty about the market environment.
- (5) At the end of September 2022, the non-consolidated core capital ratio was in the mid-12% range. An unrealized loss on other securities is a negative factor in the evaluation of capital adequacy, but even considering it, the capital level is kept relatively high. Going forward, risk assets may increase due to factors such as an increase in corporate loans without credit guarantee through a credit guarantee organization, but JCR sees that the Bank's capital will be maintained at a level commensurate with the rating for the foreseeable future.

Tsuyoshi Ohishi, Ippei Koga

### Rating

Issuer: The Seto Shinkin Bank

<Affirmation>

Long-term Issuer Rating: A-      Outlook: Stable

Rating Assignment Date: December 20, 2022

The assumptions for the credit ratings and the definitions of the rating symbols are published as "Types of Credit Ratings and Definitions of Rating Symbols" (January 6, 2014) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).

Outline of the rating methodology is shown as "JCR's Rating Methodology" (November 7, 2014) and "Banks" (October 1, 2021) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).

The rating stakeholder participated in the rating process of the aforementioned credit ratings.



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